

CITY OF WALLA WALLA
Walla Walla County, Washington
January 1, 1994 Through December 31, 1994

Schedule Of Findings

1. The Municipal Court Case File Maintenance System Should Be Improved

The Municipal Court accounting system allows cashiers to delete case files. The integrity of case files helps assure that payment information remains intact. This condition was noted in our 1993 audit report, Finding 2.

An internal control system consists of the plan of organization, methods, and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

The above noted condition has not been changed since our last audit because the court was waiting to expend training resources on the DISCIS statewide court accounting system. The scheduled beginning date for using DISCIS is September 1995, after which time only new cases will be afforded the protection of that statewide controlled case file accounting system.

Even though our audit for this period did not reveal any alteration of the court record, there exists substantial risk that error and/or irregularity may occur for all cases maintained under the old system.

We recommend the Municipal Court complete and follow procedures for case file maintenance under the old software. Those procedures should include:

- Segregation of duties between cashiers and case file maintenance.
- Establishing a hard copy list of case files.
- Supervisory review of changes to case files.

2. Accounting Controls Over Fixed Assets Should Be Strengthened

City of Walla Walla does not have adequate internal accounting controls over its fixed assets. This concern was raised in our 1993 audit report, Finding 4. Following are areas of concern:

- a. A comprehensive physical count of fixed assets has not been taken nor have fixed assets been reconciled to detailed subsidiary ledgers.
- b. Detail asset listings do not exist that support the general ledger control accounts.

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The 1993 audit report was published in late 1994. There was not enough time for the city to develop the fixed asset system by the end of 1994. This issue had been raised with prior city administration, but establishing accounting control over fixed assets was not a high priority item. The city has the objective for 1995 of beginning the process of establishing accounting control over fixed assets.

Without adequate accounting procedures, controls, and accurate detailed supporting records, the city lacks the ability to adequately account for and safeguard its fixed assets.

We recommend the City of Walla Walla complete the process of establishing accounting control over fixed assets including:

- a. Inventory all fixed assets owned by the city and develop detailed fixed asset ledgers.
- b. Conduct timely physical inventories of fixed assets and reconcile any differences between the physical inventories and the city's fixed asset internal accounting record.

3. Internal Controls Over The Municipal Court Trust Account Should Be Improved

Our audit revealed the Municipal Court's system of internal control had the following weakness:

- The Municipal Court does not have procedures to properly monitor the court trust account. Monitoring should include a monthly reconciliation of the trust account and timely remittance of funds to the city treasurer.

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Trust account reconciliations were last monitored by the city finance department in March 1994, after which time the court was responsible. Court personnel did not perform the reconciliation or assure timely remittance to the city because the Municipal Court had no employee trained to reconcile the trust account, or to analyze the propriety of amounts held in trust.

Our analysis of the reconciliation identified at least \$9,014 of city money retained in the trust account that needed to be distributed to the city.

We recommend the court establish and maintain procedures to properly monitor the trust account on a monthly basis. We further recommend the court train staff to analyze the propriety of amounts held in trust.

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Schedule Of Federal Findings

1. The City Should Develop An Indirect Cost Allocation Plan To Provide Support For Amounts Billed By The Engineering Department

In our test of amounts billed to the Sumach and Melrose project by city engineering, we noted charges for city engineering costs on progress bill No. 3, dated August 25, 1994. The federal participation of that cost was 83.13 percent or \$12,597. Of that amount, \$5,249 was for direct salary and \$7,348 was for allocated indirect costs. Those indirect costs were not supported by a documented and tested indirect cost allocation plan (ICAP). The same cost allocation methodology was used to develop cost for other transportation projects as shown below. Only those federal projects shown on the table below were allocated indirect costs in 1994.

<u>Grantor</u>	<u>Project</u>	<u>1994 Allocated Indirect Cost</u>
USDOT	Sumach and Melrose	\$7,348
USDOT	Bicycle Facilities	2,844
USDOT	Melrose Phase II	<u>9,026</u>
Total		<u>\$19,218</u>

United States Office of Management and Budget's (OMB) Circular A-87 is the criterion for how indirect costs are to be allocated to a grant program. In Section F, it states:

Indirect costs are those (a) incurred for common or joint purposes that benefit more than one cost objective.

In Section J.1, it states:

A plan for allocation of costs will be required to support the distribution of any joint costs related to the grant program. All costs included in the plan will be supported by formal accounting records which will substantiate the propriety of eventual charges.

According to the American Institute of Certified Public Accountants' *Audit Guide For State and Local Government*, such an indirect cost allocation plan should:

- 1) Explain the relevancy of cost of services to the grant program;
- 2) Explain the relevancy of expenses to be charged to the grant program;
- 3) Explain the method used to distribute costs.

The currently used indirect cost allocation rate was established when a prior city engineer determined the indirect rate multiplier should be 140 percent of direct salary of city engineering staff because that rate amount was used by a consultant to the city. That plan was not documented.

By not having a documented plan for allocation of indirect costs, the federal grantor cannot be certain that the amount charged was correctly determined and relevant to the project and there is no assurance those allocated indirect costs are eligible for reimbursement under the terms of the grant. See the Schedule of Questioned Costs.

We recommend the city engineering department develop an indirect cost allocation plan in accordance with the provisions of OMB Circular A-87.